

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,

Vidyavihar, Mumbai- 400077

MMS / PGDM – V TRIM ELECTIVE

Financial Institutions & Markets

Maximum Marks: 50

Date: 08/01/2018

Duration: 3 Hrs

Note: Answer any five(5*10=50) marks

Question No.1

- i) A chemical company paid a dividend of Rs 2.75 during the current year. Forecasts suggest that earnings and dividends of the company are likely to grow at the rate of 8% over the next five years and at the rate of return of 20 percent on these shares. What is the present value of stock?
- ii) You have decided to buy 500 shares of IT Company with the intention of selling out at the end of five years. You estimate that the company will pay Rs 3.50 per share as dividends for the first two years and Rs 4.50 per share for the next three years. You further estimate that, at the end of the five year holding period, the shares can be sold for Rs 85. What would you be willing to pay for these shares if your required rate of return is 12 percent?

Question No: 2

“The interest rate is an effective weapon of the Reserve Bank of India. The level of existing interest rate is of pivotal importance to the economy. Interest rates are employed to influence the overall economic activity.”

In this backdrop, you are required to explain the following

- i) How is the interest rate in an economy determined?
- ii) What are the factors that influence interest rates? Explain in brief.

Question No.3

From the following information calculate sharpe Ratio, Treynor Ratio and Jenson Ratio and comment on portfolio performance. Give the ranking to portfolios according to all the ratios.

PORTFOLIOS

| | A | B | C | D |
|------------|----------|----------|----------|----------|
| Beta | 1.10 | 0.8 | 1.8 | 1.4 |
| Return (%) | 14.5 | 11.25 | 19.75 | 18.5 |
| S.D(%) | 20.0 | 17.5 | 26.3 | 24.5 |

Risk free rate of return is 6% and Market return is 12%.

Question No.4

A bond with 10% coupon rate issued four years ago is redeemable after five years from now at a premium of 5%. The interest rate prevailing in the market currently is 10% .

- i) Explain types of risk involved bonds
- ii) What is duration of the bond calculate duration for the above data and interpret the number
- iii) If current interest rates are below the interest rates of bond which you are holding how your bond yield is effected explain
- iv) If current interest rates are above the interest rates of bond which you are holding how your bond yield is effected explain

PV factors @10% are 0.909, 0.826, 0.751, 0.683, and 0.621

Question No.5

| Domestic Market | | | | World Market | | | |
|------------------------|----------------|-----------------|--------------------------|---------------------|----------------|-----------------|--------------------------|
| Index | Current | Previous | Percentage Change | Index | Current | Previous | Percentage Change |
| S&P CNX NIFTY | 3641.1 | 3770.55 | -3.43% | NYSE COMPOSITE | 8926.88 | 9120.93 | -2.13% |
| CNX NIFTY JR. | 6458.55 | 6634.85 | -2.66% | NASDAQ COMPOSITE | 2350.57 | 2402.29 | -2.15% |
| CNX IT | 5100.5 | 5314.05 | -4.02% | DOW JONES LA | 12076 | 12318.6 | -1.97% |
| BANK NIFTY | 5039.05 | 5251.55 | -4.05% | S&P 500 | 1377.95 | 1406.6 | -2.04% |
| CNX 100 | 3519.35 | 3640.35 | -3.32% | NIKKIE 225 | 16676.9 | 17178.8 | -2.92% |
| | | | | | | | |

The above figures are taken from the website of National Stock Exchange of India. They illustrate the movement of NSE stock indices as well as world stock indices on a historical date.

In the backdrop of above data answer the following questions.

Questions:

1. What do you mean by a stock index? How is it calculated? Explain any one index calculation
2. Who can invest in stock market briefly explain on types of investors
3. What relationship do you see between the movement of indices in world market and NSE indices?
4. Explain the impact of Macro Economic factors on SENSEX and NIFTY
5. Write the steps involved in launching an IPO in primary market

Question No.6

Explain Bill market in India and describe various instruments available in this market. Differentiate between Commercial paper and Certificate of Deposit.
